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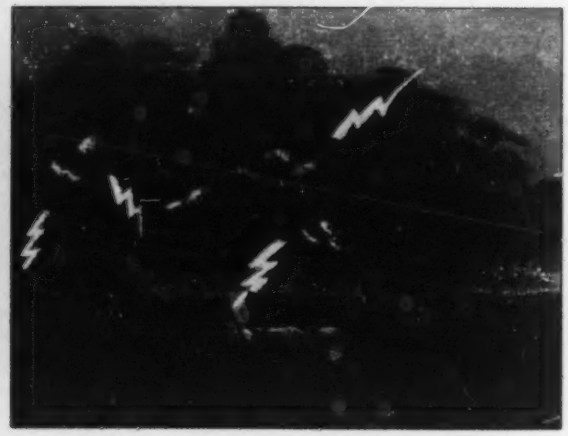

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IN THE NEXT ISSUE

An antifreeze shortage is projected, as noted in this month's news section. Suppliers already have boosted prices by 100% or more since January.

As a result, recycling used antifreeze is expected to become a popular practice among fleet shops.

To guide such efforts, CCJ's September issue will provide details on Philadelphia Electric Co.'s shop-built recycling system which provides ready-to-use coolant at a material cost of 40¢/gal.

The article also will describe several commercial recycling systems.

CCJ's series on drug testing will be concluded in September with a story that reveals how screening has helped a fleet reduce its accident frequency, damage claims and on-the-job injuries significantly. □

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Heavy truck makers recall over 20,000 units this year

By **JIM PIERPOINT**, *Feature Editor*

More than 20,000 heavy trucks have been recalled this year, including hundreds for defects that may cause drivers to lose control of the vehicles.

Ten of the 15 manufacturers' recalls involved defects that could lead to "sudden and unexpected loss of vehicle control," according to records maintained by the Department of Transportation. Three of the recalls were initiated after manufacturers discovered that insufficient fasteners were used to retain 5th wheels, suspensions and steering gears.

The most significant recall campaign this year has involved 556 1987-model year Peterbilt tractors manufactured with substandard pitman arm pinch bolts. Two of the tractors were involved in accidents in January when the pitman arm separated from the steering gear, prompting a company investigation.

"There had been a reassignment of production workers at the Denton [Texas] plant, and without Peterbilt's knowledge, Peterbilt's outside procurement source purchased bolts from a new manufacturer," the company said in its recall notification. The company reported five cases of bolt failure.

Congressional investigators are nearing completion of an inquiry to determine the source of the substandard bolts and to consider possible legislation to establish fastener safety standards.

The inquiry uncovered 11 incidents in other industries where bolts from the same supplier had failed, according to a congressional staffer. In 10 of those cases, the bolt was missing and the investigators were unable to determine the cause of the failure. In the other, the bolt head had sheered off and investigators determined that the bolt was substandard.

U.S. attorneys also are pursuing criminal investigations of two suppliers that provided bolts to Paccar.

Other significant safety problems that were found, according to the DOT reports, include:

- 1,097 Western Star tractors built with defective throttle-return springs;
- 66 Volvo GM tractors with incorrect fasteners used to clamp the rear suspension to the frame rail;
- 203 Mack tractors built with defective clamp plates between the drive shaft and carrier yoke.

More recent campaigns include 283 Kenworth W-900B, T-600A and T-800 tractors recalled to replace throttle pedal stops that may cause the electronic throttle to fail. In June, Navistar recalled more than 5,000 S-series and Metro SC tractors built with possibly defective tie-rod steering arms.

The largest recall involved 12,300 Peterbilt tractors manufactured in 1987 and 1988 and equipped with possibly defective windshield-wiper drive linkages. "This condition could impair the driver's vision and a vehicle crash may result," the truck maker said in a letter announcing the recall.

In terms of the number of vehicles involved, "this is not an unusual year," a NHTSA spokesman said. Through July, 20,138 heavy trucks had been recalled by manufacturers, compared with 203,000 last year, 152,000 in 1986 and 97,000 in 1985.

Federal regulations require vehicle manufacturers to report all safety defects to DOT's National Highway Traffic Safety Administration. The agency also maintains a telephone hotline to field complaints from consumers and can initiate an investigation of suspected safety problems.

Most heavy truck recalls are initiated by equipment manufacturers. "It's very rare that a problem [first] identified by NHTSA leads to a recall," said Jack Burton, Navistar International Transportation Corp. compliance manager.

Like most truck makers, Navistar has developed an in-house monitoring system to study accident reports, customer complaints and new-truck inspection reports. Because of the relatively small number of vehicles involved, safety and compliance managers must be sensitive to the safety implications of every report, Burton said.

While reviewing isolated accident reports and information from field service departments and truck dealers, "we have to ask ourselves, does the potential for wider instance of failure exist?" he said.

Along with the heavy trucks listed in the table on page 23, four recalls have been initiated by engine makers this year, according to the DOT records.

Cummins Engine Co. recalled electronic diesel engines equipped with a faulty valve that may cause engines to accelerate to full throttle if the cruise control is engaged. Cummins also recalled 16,500 faulty oil cooler gaskets and 260 NHL-255 diesel engines manufactured with shallow clutch mounting holes.

In addition, 2,993 coach engines manufactured by then-General Motors' Detroit Diesel division were recalled to inspect and replace crankshaft pulley assemblies.

Continued on page 23

RLC spins off Matlack and Rollins Terminals

RLC Corp. announced it will spin off its wholly-owned subsidiaries, Matlack Inc. and Rollins Terminals Inc., to RLC's shareholders. The spin-off will be accomplished by setting up a new company, Matlack Systems Inc., which will own Matlack and Rollins Terminals.

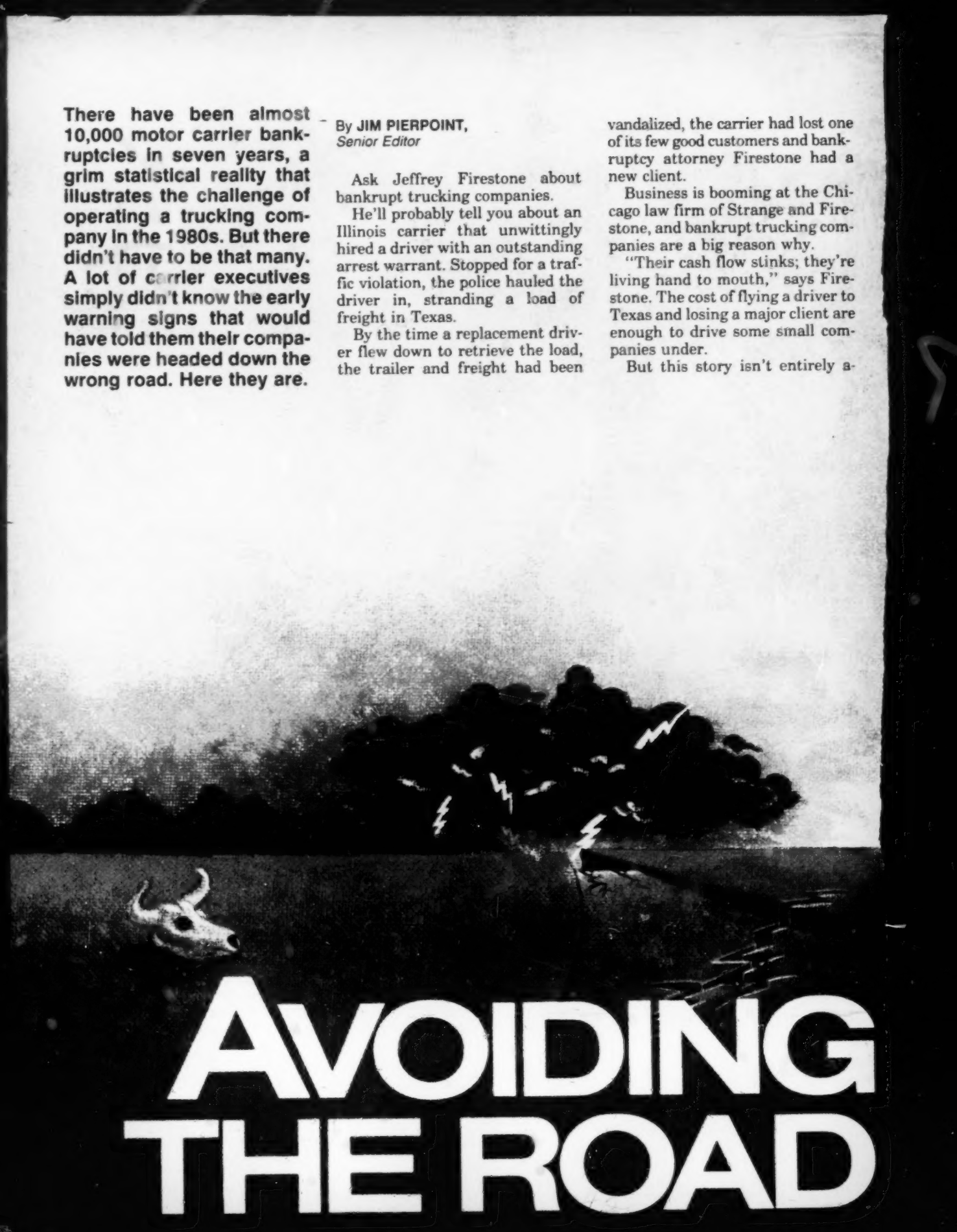
RLC believes the spin-off will better identify each company's line of business.

After the spin-off, RLC's primary operations will consist of full-service truck leasing as well as commercial truck rental and related services in approximately 180 facilities throughout the U.S. with approximately 16,000 vehicles. □

Circle 12 on Inquiry Card →

Heavy truck recalls through July 1988

Company and Model	Problem area	Effect	Remedy	# of Vehicles
Ford 1987-88 CF6000, CF7000, DF8000 medium-duty trucks	incorrectly machined piston ball race in the steering gear	out-of-tolerance condition could cause wear, leading to increased steering effort or steering gear seizure	replace steering gear	NA
Freightliner 1988 Cabovers	lower fuel tank step	welded gussett could break away	install end plate to tie upper and lower steps together	150
Mack Trucks 1988 Mack R, RD, RM, U, DM, DMM	improperly heat-treated clamp plates between drive shaft and carrier yoke	clamp plates may crack and break, interfering with air hoses and tractor tires	install new clamping plates and cap screws	203
Mack Trucks 1986-88 Mack RM	steering shaft spline engagement is .52 in. versus recommended 2 in.	impacts such as potholes could result in shaft disengagement, causing loss of steering	replace steering shaft spline with longer one	259
Mack Trucks RD-600	compression of front springs interferes with crossover fittings	six field failures reported	reconfigure front springs and fittings	140
Mack Trucks 1988 Mack MR	seat-belt mounting bolts on inboard side of rider's seat	bolts may be undertorqued, allowing bolts to loosen	retorque bolts	127
Mercedes-Benz 1984-86 L1317	rear air brake chambers do not comply with FMVSS 121 standards	axles should not be loaded above 20,000 lb	re-rate axles to 20,000 lb, or OEM will modify brake chamber	2,968
Navistar 1988 International 9370	fifth wheel mounting	fifth wheel could separate from tractor	add bolts	282
Navistar 1987-88 International 9300, 9300SB	rod end to the tie-rod steering arm may not have been properly torqued	rod end could loosen, shear off locking cotter pin and allow tie-rod to separate from tie-rod steering arm	inspect and tighten rod end	3,213
Navistar 1987 International 9370SB	steering drag link too close to left front spring bracket	loosened drag link could catch on spring bracket	install four hardened washers between steering gear and front spring bracket	1,254
Navistar S-Series and Metro SC models	steering axle tie-rod arm not heat treated	tie-rod arm failure	replace tie-rod steering arm	5,587
Oshkosh Truck Corp. V-917 and S-model trucks	fan blades crack and separate where blade overlaps spider	16 reported failures, some causing damage to the engine or injuring mechanics	all-steel fan designed and shipped to truck owners	351
Paccar 1987 Peterbilt	pitman arm pinch bolts may be overtightened or missing	pitman arm could separate from steering gear, causing loss of steering control	replace pitman arm pinch bolt	556
Paccar 1987-88 Peterbilt 357, 375, 376, 377, 378, 379	windshield wiper drive linkage	linkage could lock up, causing wipers to stop	replace wiper drive linkage	12,300
Paccar Kenworth W-900B, T-600A and T-800 with PEEC engines	substandard throttle pedal stop	aluminum pedal stop may break, keeping the electronic throttle sensor from returning to idle	replace aluminum pedal stop with steel component	283
Volvo GM 1985-87 White, Autocar, 88 WhiteGMC	warning decals not placed on air cleaner and dash	use of ether or starting fluids could result in fire or explosion	install warning decals	276
Volvo-White 1988 White, Autocar, WhiteGMC ACL/ACM/Xpeditor	incorrect bolts connecting rear suspension and cross member	bolts may not retain suspension	change bolts	66
Western Star 1986-87 conventionals	clutch release may have been weakened during casting	clutch lever may fail	replace C-shaped clutch lever	1,097
Western Star 1983-88 conventionals	throttle return springs	springs may fail, preventing engine from returning to idle	replace throttle return springs	303
Western Star 1988 conventionals	stainless-steel skin on mufflers could reach 400° F	heat could cause severe burns to persons using muffler-mounted grab handles to enter or exit the cab	add heat shields to the outer skin of the muffler	NA



AVOIDING THE ROAD

There have been almost 10,000 motor carrier bankruptcies in seven years, a grim statistical reality that illustrates the challenge of operating a trucking company in the 1980s. But there didn't have to be that many. A lot of carrier executives simply didn't know the early warning signs that would have told them their companies were headed down the wrong road. Here they are.

By **JIM PIERPOINT,**
Senior Editor

Ask Jeffrey Firestone about bankrupt trucking companies.

He'll probably tell you about an Illinois carrier that unwittingly hired a driver with an outstanding arrest warrant. Stopped for a traffic violation, the police hauled the driver in, stranding a load of freight in Texas.

By the time a replacement driver flew down to retrieve the load, the trailer and freight had been vandalized, the carrier had lost one of its few good customers and bankruptcy attorney Firestone had a new client.

Business is booming at the Chicago law firm of Strange and Firestone, and bankrupt trucking companies are a big reason why.

"Their cash flow stinks; they're living hand to mouth," says Firestone. The cost of flying a driver to Texas and losing a major client are enough to drive some small companies under.

But this story isn't entirely a-

bout bankruptcy. It's about early warning signs of financial trouble, of strategies used to put a company on a more profitable road when the bottom line turns red. It's a story best told by executives who made tough decisions to keep their companies out of bankruptcy court, and an attorney whose business is booming because others didn't.

Michael Chrismer could not hide his emotions in a final letter to his customers. "This is a very painful letter," Chrismer wrote. "Dignan Trucking is closing."

With that, the doors were shut on the 79-year-old company founded by Joseph M. Dignan, subsequently headed by his son, Joseph Jr., and in its final years by son-in-law Chrismer. The Jessup, Md.-based carrier had always posted an operating ratio in the high 90s, but, Chrismer would say later, the pressures of operating in a deregulated industry were forcing the company out.

"There has been an absence of concern from the Teamsters this

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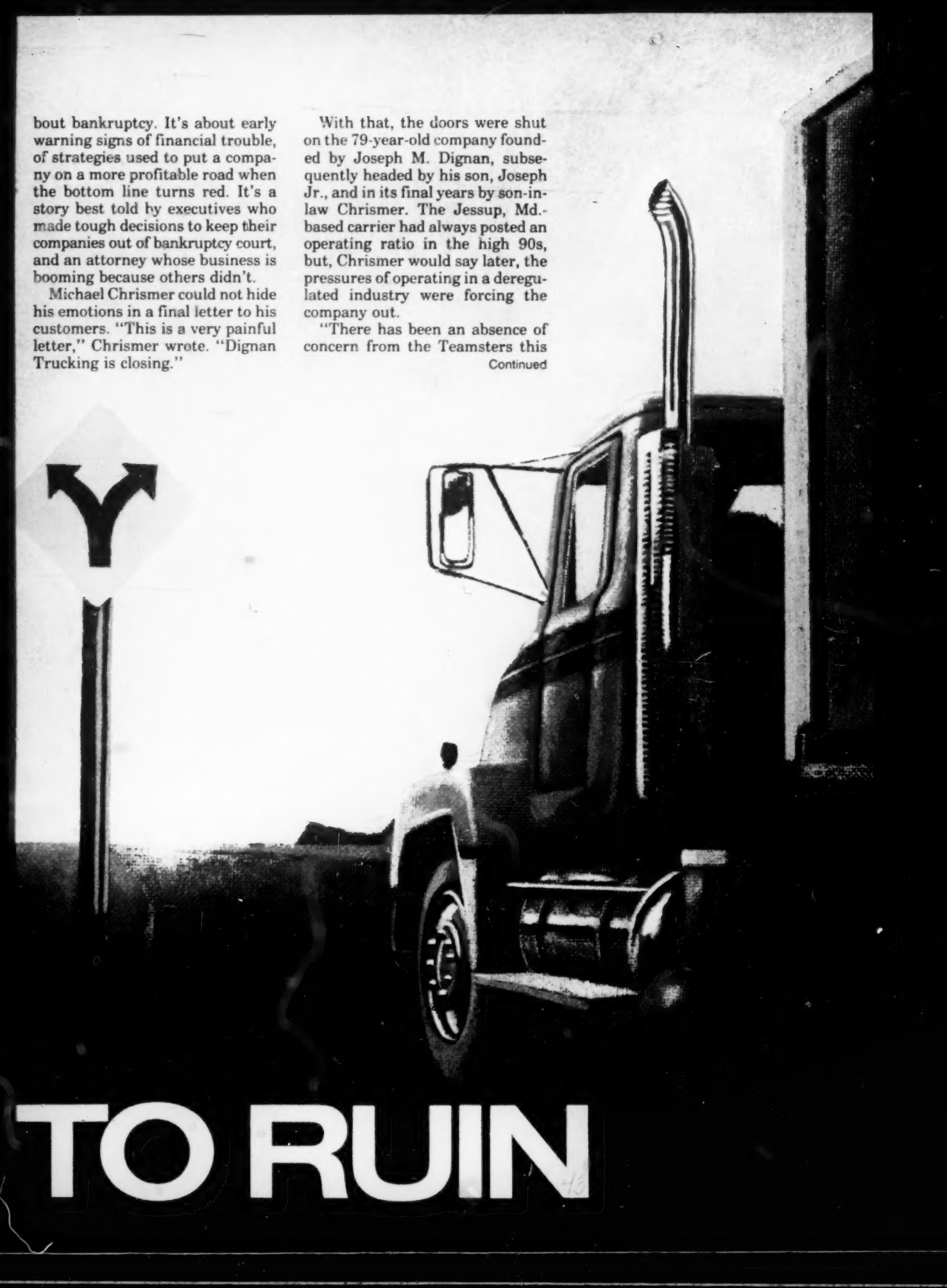


TO RUIN

"We've made deregulation work to our advantage," Bob Kortenhaus says of the economic climate that forced the family-owned carrier down a more profitable road. In addition to Bilkays Express Co. and Distribution Warehouse and Service Co., the family runs The Bobby Corp. (a full-service leasing operation) and leases commercial real estate through Bilkays Properties.

year as we have attempted to seek a competitive contract," Chrismer said in the March 25 letter addressed simply to "valued friends and customers."

"The realities of illogical and predatory price discounting within the industry have been too much for Dignan to overcome," the letter said.

The erosion of Dignan's competitive position was marked by a steady drop in revenue and profits over the past five years. In 1983, the company turned its last profit, and after barely breaking even the next two years, Dignan lost "a little money in 1986 and a lot of money in 1987."

The company was unable to grant a 5% tariff reduction demanded by its largest customer, and it began losing distribution loads to long-haul, less-than-truckload carriers able to consolidate enough shipments to bypass local break-bulk operations like Dignan's. The company also could not regain piggyback and container loads going to owner operators and nonunion competitors. Cash flow became a daily concern. "We just didn't have a competitive cost base," Chrismer said.

Throughout this slow erosion, Chrismer fought a losing and often frustrating battle with Teamsters Local 557 out of Baltimore. After allowing Dignan to freeze wages in 1985, negotiations with the union reached a stalemate the following year. When local officials refused to consider further concessions in 1986, Chrismer risked a strike and unilaterally imposed an employee compensation package that included additional wage cuts and reduced sick leave and vacation benefits.

With that contract set to expire this year, Chrismer, in January, approached the union, seeking further concessions. "I wanted to keep the members working," said Clifton McDonald, Local 557 president, "but now we were reaching the bottom of the barrel and there was nothing more to give." Dignan's drivers at that point were making $10.92 per hour, he said.

Unable to obtain further wage and working concessions, Dignan Trucking ceased operations April 8.

"I could have delayed [closing] for a week, maybe a few months," Chrismer said, sipping on a cup of coffee and looking back at decisions that had to be made. But if the decision had been made to stay open? "I don't think we would have made it," he said.

Dignan's experience, however, is not unique. Unlike deregulation in the aviation industry, which created millions of new passengers attracted by reduced rates, the trucking industry has not seen an appreciable increase in freight since 1981. The industry experienced a great influx of carriers willing to haul that freight, though, and the overcapacity has forced hundreds of trucking companies out of the industry in the past seven years.

More precisely, 9,357 incorporated trucking companies and owner operators have filed for bankruptcy protection in U.S. courts since 1980, and this year that number will swell by 1,220, according to data collected by Dun and Bradstreet. Last year, failed carriers left behind debts of more than $351 million. And while a quarter of those companies were more than 10 years old, half closed before celebrating their fifth anniversary.

In recent years, the number of bankruptcies has fallen slightly, an industry-wide trend that is expected to continue, said Tiziana Mohorovic, Dun and Bradstreet business statistics supervisor. On the other hand, rate pressure on smaller less-than-truckload carriers and owner operators is rising due to competition from larger LTL carriers, railroads and TL carriers, said Paul Roberts, a Washington, D.C.-based transportation consultant.

"Carriers who have not achieved density in their traffic lanes are foundering, and it appears that they will eventually fail," he said.

The pressure on companies of all sizes will continue to be intense as the industry continues to consolidate, and for family-owned companies and owner operators this pressure is magnified by the fear

and emotions of losing a way of life as well as a livelihood. The caution sounded by consultants working with carriers rings clear: Take a hard look for the warning signs.

"There's a lot of pride in these things, and [businessmen] don't want to close their doors," said Myles Sachs, senior partner with the J.H. Cohn investment firm. In today's tight market, carriers should lay this pride aside to rationally consider the financial stability of their company and calmly assess other alternatives to present operations, he said.

"Look for slow erosion," Sachs said. The signs include reduced operating capital, cuts in spending on maintenance and a failure to invest in new equipment. Employees will notice subtle signs of spending cuts: extended preventive maintenance cycles, aging trucks and a steadily rising operating ratio. Executives should look for trends over three-year periods to discount the effects of one-year downturns, he said. The first sign of erosion is in the growth profile of the company.

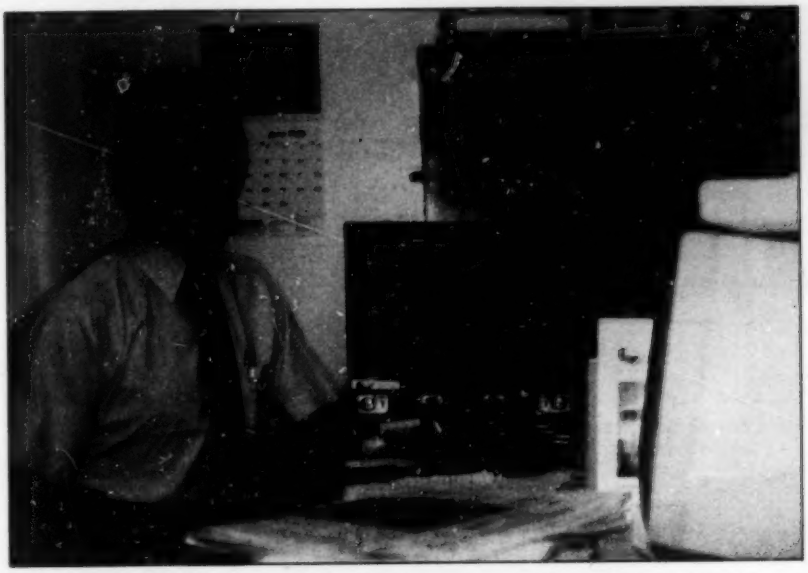
"If you're not growing, you're in trouble," Sachs said.

Heeding the warning signs

Like Chrismer's, the letter Bob Kortenhaus wrote to announce the closing of his general freight operation was just as biting, and the emotions ran as deep.

"We wish our competitors well, knowing that they remain in an industry that is bent on self-destruction, one that no longer provides for them the economic well-being that they once enjoyed, and for many, being forced to continue because for them there are no alternatives," the Bilkays Express vice president said.

Profits were falling, the operating ratio was rising and competitive pressures were showing no signs of weakening. Bilkays was left with barely $250,000 profit on $22 million revenue in 1986. Kortenhaus and his brother Bill were looking for options before the Elizabeth, N.J.-based company founded by their father, William Sr., was no longer in business.



Unable to obtain work-rule concessions for his company, Michael Chrismer closed Dignan Trucking and now works as a territory manager for ANR Freight System. The irony, he said, is that former Dignan drivers are now "dipping the stick, pumping gas, working the dock and driving" in their new jobs.

What they found was a way to nearly double the profitability of their freight operation, generate a significant income from their real estate holdings and ease the chronic headaches of dealing with "the anxieties of the unknown," as Kortenhaus called the daily pressures of running a general freight operation.

And these changes couldn't have come at a better time, according to Sachs, a long-time advisor to the Kortenhaus family. Bilkays owned five terminals in the area surrounding New York City, and was charging itself less than the market rate for leasing back that property to the warehouse, distribution and freight operations.

Bilkays was "losing a great deal more money than it appeared on the face of it because operating costs were sheltered in the low return on the real estate," Sachs said. "Just by putting the arithmetic together, we showed the family they could generate a very positive cash flow, very positive income" by leasing the terminals.

Subsequent leasing arrangements now net Bilkays Enterprises, the Kortenhaus' new real estate operation, about $1.6 million annually, with a $1.3 million profit and an 18% return on investment.

These numbers tell the real story behind most failing companies. Kortenhaus thought he earned a couple hundred thousand dollars in 1986. By not charging the company the full value of the real estate, his accountant figured the company lost more than $1 million. The failure to accurately account for operating costs, particularly costs that may be sheltered, can cause a carrier to underestimate the real bottom line.

The key to recognizing the shortfall and making the changes that would ultimately create four very profitable companies was the ability of the Kortenhaus family to "swallow foolish pride" and make some tough decisions about the company their father started 56 years ago.

"It's like the Joe DiMaggio theory," Kortenhaus explained. "If you can't hit home runs any more,

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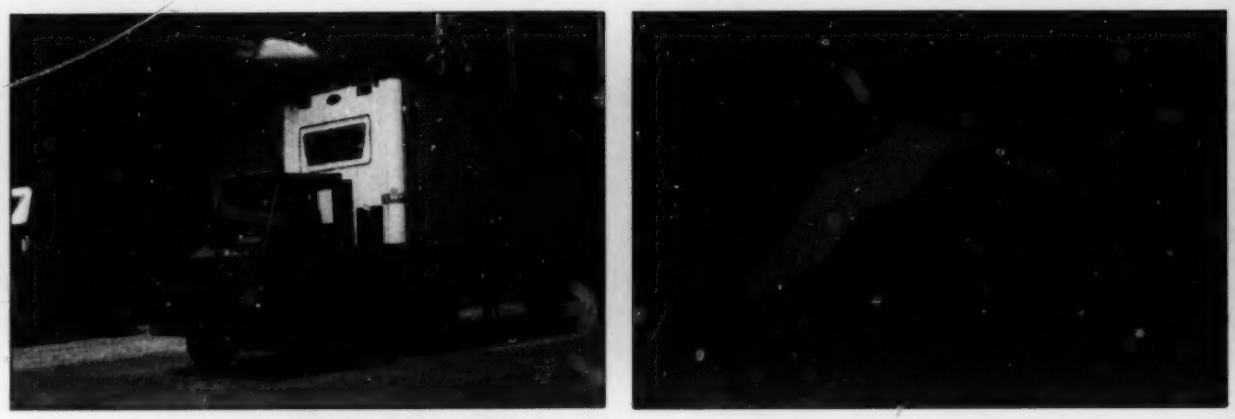


Yellow Freight System now operates a forward-haul breakbulk facility in the leased terminal adjacent to two of Bilkays Enterprises' subsidiaries: Bilkays Express Co., Distribution Warehouse and Service Co.

it is time to sell coffee pots."

After a major carrier offered to purchase Bilkays' Elizabeth terminal, the family sought the advice of a long-time financial advisor and a local banker and began the process of considering alternatives to continuing its general freight operation.

The first and most formidable hurdle, Kortenhaus said, may have been the thought of losing the heart of the family-built business, its trucking operation. Bilkays and its Jersey Coast subsidiary were running 150 tractors and 300 trailers in the Northeast, with five terminals spread in a semicircle around New York City.

The likelihood of curtailing this business—begun when Kortenhaus Sr. hauled a load of auto parts into the city—was "a hell of a bullet to bite," Kortenhaus said.

With no withdrawal liabilities owed to the union pension fund, and with the luxury of heading a debt-free company, the family decided to stay in the trucking business, but not exclusively. Within a few months, Jersey Coast was merged into Bilkays, one of the terminals was sold to a local developer, and the remaining four were subsequently leased to Consolidated Freightways, Yellow Freight System, Carolina Freight Carriers Corp. and ABF Freight System.

The moves were so rapid that temporary office trailers were pulled into a corner of the warehouse and a hospitality suite was transformed into an executive suite. "For a while, the inmates were running the asylum," Kortenhaus is fond of saying, thinking back on the changes the company—and the family—experienced.

As freight operations were pared back, Bilkays was able to handpick customers for its freight, distribution and warehouse operations. Offering personalized service to 35 warehouse customers and 60 distribution accounts, Bilkays has found several ways to increase efficiency. Advance notice of shipments that need to be pulled out of the warehouse gives dispatchers 48-hour windows for planning loads and driver schedules. The warehouse and distribution operations positioned the companies for the move to retail deliveries.

Inefficiencies of the general freight operation became evident as employees found 10,000 accident-report forms in a storeroom, and a trailer that did not appear on the company records was returned to the terminal. The changes created a freight operation efficient enough to post an operating ratio in the high 80s and reap an estimated $400,000 profit on $3 million revenue the first year, Kortenhaus said.

"We took it off the bumpy road and put it on the superhighway," he said. After spending the years since 1981 watching carriers "negotiate themselves into disasters," struggling to accurately cost freight and dealing with shipper traffic managers intent on wringing further discounts from the industry, Kortenhaus seems relieved to be on firmer footing.

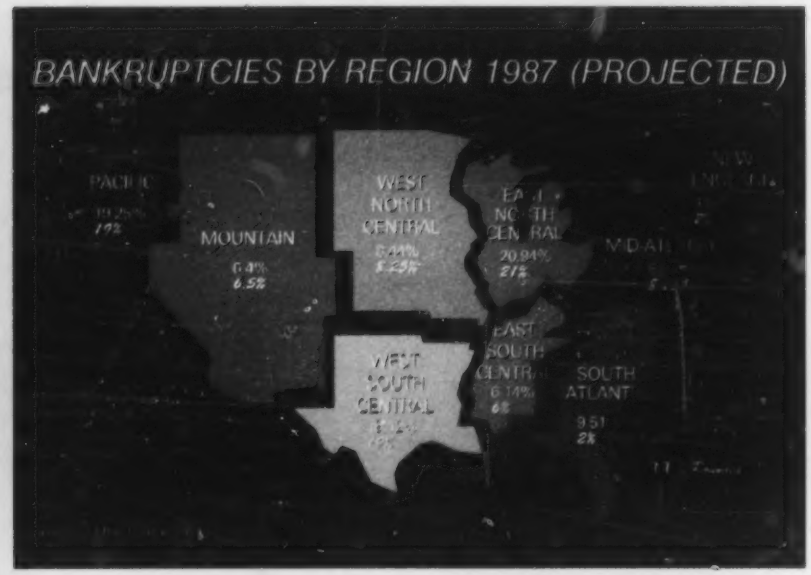
"I can control my freight, I can control my shipments, I can control my dispatching, and I can control my payloads better," he said.

There are two important steps in making the decisions that pulled Bilkays out of the general freight industry and into business as a specialized warehouse and distribution company with a real estate subsidiary. The first involved positioning the company to make a transition into a scaled-down operation.

Kortenhaus, for example, consulted real estate advisors to determine the market value of the terminals, and the family streamlined ownership documents to allow a deal to be made efficiently.

Like the Kortenhaus family, others looking to make a transition or evade financial erosion also should consider the human factors: when do the principals plan to retire; do they need to pull their investments back out of the company; and do they really want to leave the trucking industry or scale back their trucking operation?

The second step, according to



Kortenhaus, is to shed any family pride that may get in the way when the tough decisions have to be made. Seek professional financial guidance and "back off" when false pride begins to dim the hard look at alternatives. The interests of the family or principal shareholders cannot be ignored, but also should not become a hindrance in a process to save a failing company.

Carriers without the real estate assets of the Kortenhaus companies have one other alternative to consider, Sachs said. As the industry continues to consolidate, regional carriers have become acquisition targets for companies with national ambitions, making selling out a viable alternative for some carriers.

"All the guys I used to break bread with at industry meetings are selling their companies," Kortenhaus said.

Carriers looking to sell should consider what buyers are looking for, Sachs said. Some buyers may be seeking terminals and an established operation that will be a good fit for their business. Others are looking for fairly rapid returns on investment, and cash-flow projections are the hot button for these buyers.

When all else has failed

Bankruptcy lawyer Firestone vividly remembers one other trucking bankruptcy.

A carrier had leased a tractor covered by a warranty that would pay for most major repairs. Then they put a driver in the truck and off he went.

A few months later, dispatch received a call that the driver was stranded; the engine had overheated. Unfortunately, the damage occurred because the driver had neglected to fill the radiator, leaving the carrier holding up to $15,000 worth of repair bills and a warranty that excluded damage caused by negligent maintenance.

That $15,000 expense and the revenue lost as the tractor was being repaired are enough to pull a fledgling trucking company or an owner operator down the drain, but the real problems probably can be traced back to the first day that carrier began hauling loads.

Undercapitalization is the major reason carriers are forced to file bankruptcy, Firestone said. Before going into business, a carrier should have banked enough cash to cover operating expenses for at least three to four months, and maintain that cushion, he said.

Chances also are good that the company was financed by leveraging personal assets, that the principal owner signed for fuel and operating expenses, and that the business was not incorporated, leaving the owner personally responsible for the debts. "Owner operators almost never incorporate," Firestone said.

The final problem is that when it's time to contact an attorney to begin bankruptcy proceedings, truckers call the wrong type of attorney or make the call too late. "You can be creative with a bankruptcy," Firestone said, but you must retain an experienced bankruptcy attorney and you need to call before foreclosure.

"The bank doesn't want to repossess a truck," he said. "They would rather cut a deal." An experienced bankruptcy attorney will try to negotiate with creditors and keep the carrier from filing with a bankruptcy court. The creditor gets something instead of nothing for the debt, and the debtor retains a credit rating.

When all else has failed, the final step is to file for bankruptcy.

Truckers filing under Chapter 7 of the bankruptcy code typically seek to liquidate the company, and their trucking days are over, Firestone said. But some are able to file under Chapter 11, restructure the debt and continue operating. The key for those companies is to realize that the bankruptcy filing will resolve the issue of debt, but will not solve the problems that created indebtedness.

"I had one guy who filed Chapter 11 and then headed off to Las Vegas," Firestone recalled. "He said he needed a break." A company rarely gets more than one chance to clean up its act during the restructuring, he said. The next stop is liquidation. □

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